RICHARD RUSSELL'S **DOW THEORY LETTERS, INC.**

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OPENING COMMENTS: The greatest debt edifice in the history of the world is now reeling like a heroin addict in his last stages of dilirium. Bond markets are shattering, the stock market recoils in horror and the commodities swoon. I've stated this repeatedly in Letters since late-1979: in the first stages of the credit crack-up the DOLLAR IS FATED TO BE KING. Why, why is this? It's because the nation is basically insolvent. Individuals, corporations, cities, counties, states, they all are in various stages of illiquidity (their debts far overshadow their assets). And their debts are growing, growing, growing.

Throughout the gathering fiasco, we (as survivors) will want to retain our PURCHASING POWER. I think the place to do that is in 91-day Treasury bills with a small "survival package" of gold. As the pressure mounts, as individuals and corporations see their income falling off, as the capital markets break down (which they are now doing) the cry will be "cash, I need cash, cash at any cost!" You will stay solvent, your business will stay afloat, any corporation will stay alive with cash. So I want subscribers to move to cash, sit with cash, stay with cash. What kind of cash? T-bills should do it.

I don't think you need greenbacks in a shoe box. I don't think you need a bank vault full of $100 bills. I think placing your money in 91-day T-bills is a safe proposition during the first phase of the gathering storm.

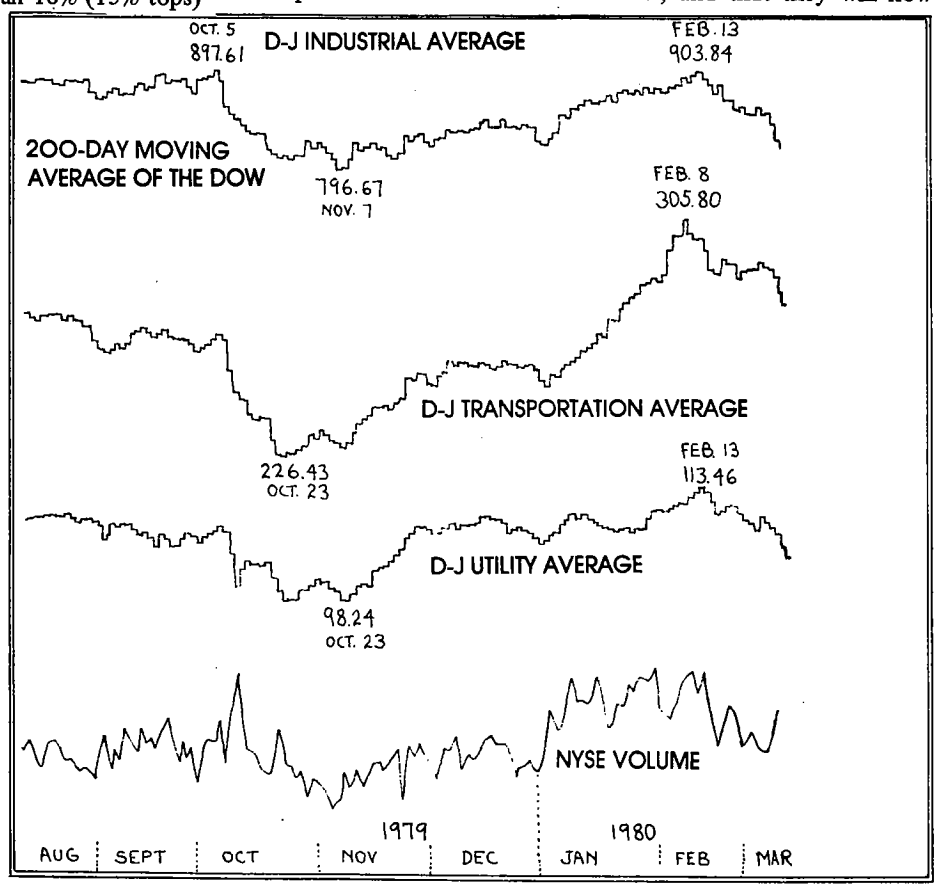
How about gold? I would not hold more than 10% (15% tops) in gold NOW. The gold section at the end of this Letter tells you why. But as this second phase of the gold bull market nears completion, as gold ends its correction, we may move say to 50% (or even more) in gold. But right now I believe that cash is going to be king, and it could be that way for a while. Don't go for the fat interest rates in bonds, don't go for the enticements of stocks that have tumbled 25% to 30%. Something big is going on here, and it's not going to be blown away by a few more fuzzy statements from Mr. Carter or Treasury Secretary Miller. What's occurring now is fundamental. It's a heart attack in the money markets. The life-blood of the markets (money) is now boiling.

Some time ago I wrote a detailed report showing how by 1982 the cost of servicing the national debt would eat up all the Government tax money available. Obviously, I can't know if this is what is happening now, but my guess is that the money market has "jumped the gun." it has looked ahead and decided that as things are now going, only disasters and more disasters lie ahead. With inflation sky-rocketing, with Government unwilling to curb its debt and its spending, the money market has decided that no rate of interest will compensate for the dangers in making long-term loans in the current atmosphere. So what the politicians would not do (take the pain of cutting back spending), the markets will do for them. The markets are now TAKING OVER.

To all purposes, the capital markets have now ceased functioning. There are no real bidders for long-term bonds. Major insurance companies have announced that they will no longer make long-term mortgage money available. Nor will they make long-term financing available for capital investment. The great "American inflation-indexing experiment" is therefore coming to a screeching halt.

The new fear—the new possibility—is that the economy itself may come to a halt. If so, if the economy now tumbles into recession, the spector of the towering debt will be the major problem (as I have warned over and over again). You can get rid of your employees, you can dump your inventory, you can cut your prices, you can stop buying—but you cannot get rid of your debt. You must service it. You must make those payments. If you can't, it's called bankruptcy. It's as simple and relentless as that.

Ironically, at this stage of the game our Government is trying to hold back spending, cut consumer spending, restrict "something." They are, sadly, fighting the last war. The money markets are doing the restricting for them now. But my guess is that the politicians won't understand that, and that they will now



"fight inflation" (even while the bond market, the stock market, the commodity markets, are deflating). If so, we could go "over the edge." And the coming "mild recession" could turn into something infinitely worse.

I debated writing the above because I thought, "Russell, what are you doing? Why are you putting it so strongly? Why not take it easy, because if nothing happens you're going to look like a fool." But that's OK. I want my subscribers to know what I am thinking about, and if none of the above comes to pass, if nothing happens, then great, wonderful. The worst any of you will suffer is a little twinge as you read this Letter. But if things do start to come apart, if the banking system starts tottering, if the so-called "money funds" start looking suspect, then I don't want it on my conscious as I say to myself, "Russell, why didn't you say something, why didn't you open your big mouth while there was time–when it would have done some good."

So I'm opening this Letter expressing my deepest worries. And I'm repeating many thoughts and concepts that I've included in these reports before. I'll repeat this once more. I don't want my subscribers in C/D's, I don't want them in money market funds, I don't want them in S&L's, I don't want them to place the great bulk of their assets in anything but 91-day T-bills (which are out of the banking system). And if you have the suggested 10% to 15% in gold coins, sit with them and forget them. In 5,000 years no gold coin has ever been declared bankrupt or out of fashion.

THE PICTURE: With the rise in so-called technical analysis, investors expect entirely too much from charts. Many technicians imply that their charts provide them with a magic crystal ball view of the future. If that's what you think, forget it. The charts may be great, but it's the interpretation that gives us the trouble. Or to put it a different way, charts tell you what's happened, charts tell you what's happening, but YOU have to decide what a chart is telling you (if anything) about the future.

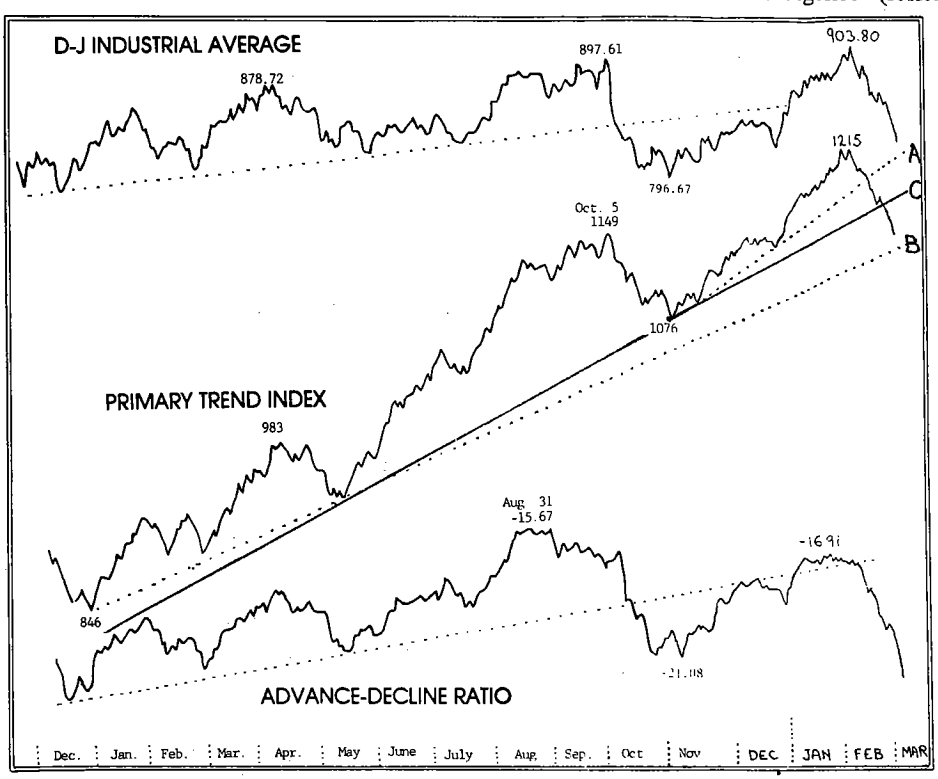
I do admit to keeping a battery of charts at both my office and my home. On top of that, I subscribe to about 5 stock chart services. Here are some things my charts tell me at this time. First, interest rates have broken out again–on the upside. Last week the 91-day T bills brought a record 15.1% at auction. Never has the US Government paid so much for money. Second, my charts show me that the so-called "hard currencies" are now breaking down (against the dollar). The rising trends in the Swiss Franc and the German Mark (rising trends that began in May, 1979) have been reversed in favor of the Yankee dollar. The Japanese Yen is flirting with new lows. Evidently, foreigners like the juicy US interest rates.

My chart of the yield differential between the Dow Industrials and the D-J 20-Bond Average shows the yield spread in favor of bonds is now at 6.60%, probably a record. The Dow yield (now 6.02%) would have to more than double to equal the 12.62% yield on the bonds. Bonds have become the "untouchables" of the investment world (which means they're nearing a temporary bottom).

I keep a chart of major "assets and collectibles."The chart shows that US stamps have had the greatest appreciation since 1969 (430%), old masters art is second (375%), US non-gold coins third, diamonds are fourth, US farmland is fifth, and housing is sixth. During that same period the broad indices of stocks moved virtually sideways. Obviously people have preferred "things" to equities.

So what do we know? We know that investors don't mind being in debt, but they hate to own debt (bonds), they are about neutral on most equities, they love owning assets and collectibles. And very clearly everyone is betting on "more inflation." Will everybody continue to be correct about inflation? Only one man in the country seems to think that we're about to see deflation. He's my friend Tom Holt (Holt Advisory), a man who's brave enough to place ads in Barron's proclaiming "The Coming Deflation." Oh yes, I believe Jim Dines feels somewhat the same way.

Now let's turn to another enigma, the US stock market. From the standpoint of the D-J Averages, we now have the largest area of divergence (series of non-confirmations) in history. The D-J Industrials struck a record 1051.70 in 1973. In 1976 the Dow high was a lower 1014.79. In 1978 the Dow peaked at 907.74. This year's still lower high of 903.84 was recorded on February 13. Against this we have a series of rising annual Transport highs (beginning in 1976) with the latest peak being the all-time Transport high of 305.80 recorded on February 8, 1980.



The striking 5-year series of divergences in the Averages constitutes a long-term danger signal. Certainly these divergences have given way to one of the most schizophrenic markets in memory. What we've had recently is a relatively strong energy sector with the rest of the market pretty much in shambles.

I would say that my chart (at left) of the Dow, the PTI and the A-D ratio tells us more about the market picture than anything else does at this time. Last week the A-D ratio (which is a proxy for the whole NYSE list) dropped to minus 21.81 on my chart. This wipes out all the price action going back to December, 1978. It also takes the A-D within

a point of the 1978 (not 1979 but 1978) "October Massacre" low.

This is obviously very poor action. Because of this crushing breakdown in the A-D ratio, my guess is that the back of the latest market advance has been irreparably broken. Of interest (and I don't know whether to be depressed or surprised) is that since February 11 we have had an almost unbelievable series of days in which daily declines totaled 1000 or more (12 out of 18 days between February 11 and March 6)! That constitutes a bonafide breadth panic and takes the market into deeply over-sold territory. We know, however, that the market can STAY oversold, and Lord knows the bond market is demonstrating that phenomenon now. Speaking of bonds, I would not expect any decent stock market action until *after* the bond markets can form a bottom. And that has not happened–yet.

PRIMARY TREND INDEX (PTI): A decathlon athlete competes in 10 different track events. Suppose you were training a decathlon athlete and you were interested in following his progress each day. The question: is your decathlon athlete improving or slipping as the days and weeks go by?

One way you could track your athlete's progress is to time or measure each of the 10 events each day. If he improved on an event, you would put a plus mark on your sheet. If he slipped (compared with the previous day's performance), you would place a minus. If the plusses started rising as the days passed, you would know that your athlete was getting better, and that his performance peak lay ahead. But if the minuses started increasing you would know that something was wrong. You would also know (as the weeks went by) that the peak performance had passed.

Furthermore, it would not be enough if your athlete started excelling in a single event while he was slipping in all others. If that occurred, then despite the brilliance of the single outstanding performance, you would know that on balance your athlete was losing out. One or two outstanding performances will not win the decathlon.

It is the same thing with the PTI. The PTI measures 8 vital technical departments of the stock market. It is not enough that 2, 3 or even 4 of these departments show improvement. It is necessary that **a majority** show improvement over any reasonable space of time. From experience, I have found that if a **steady majority** of my 8 items shows improvement, sooner or later this bullish action will rub off on the lagging components of the PTI, and in time the PTI and the market will push to new highs. The opposite is true when a steady majority of the PTI components continue to slip. Ultimately, that weakness will have an effect on the minority of strong components and the PTI and the market will slide to new lows.

Turning to the chart and the current situation (see chart page 2), note that the near-term trendline "A" has been violated. I have drawn a long trendline (marked "C") connecting the May and the November 1979 lows. Last week the PTI broke through this rising trendline. I take this as a signal of longer-term weakness in the PTI. Below trendline "C" lies the even longer trendline "B" connecting the lows of December, 1978 and May, 1979. The PTI is now about 25 points above this trendline.

I'm particularly anxious to see how the PTI acts on the next rally. The PTI has come down *rapidly* during the initial decline. If the PTI is sluggish during the next market rally the situation will appear increasingly ominous. Remember, it's the *accumulation* of action that is so important in reading the story that the PTI is telling.

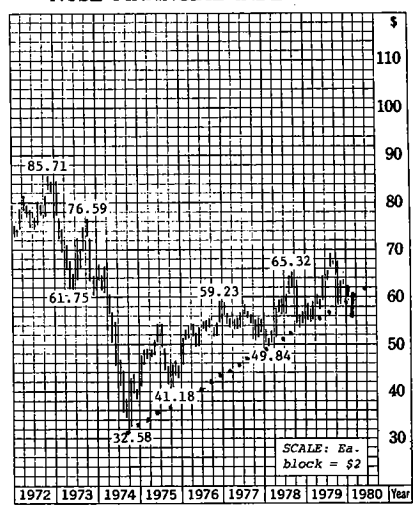
Of course, the big question that we are really concerned with is this: "Are we seeing a secondary corrective decline in the PTI, or is the PTI turning down in a major way as it did during early 1972?" It's too early to answer that question definitely, but the PTI at this point is saying that utmost caution is warranted.

* *

I doubt whether any other market Letter has written more about interest rates than this one, but as all subscribers must now know, interest rates are now one of the paramount facts of investment life. One major problem here is that with T-bills at 15%, the *risk-reward* in holding stocks has deteriorated badly. Out of the hundreds of managers who have competed in the "investment sweepstakes," few, very few have ever produced results of 15% per year over say a 10-year span. Give me a pension fund (deferred taxes) invested at 15%, put $100,000 in it, and in 15 years I'll have $813,000. In 10 years I'll have $1.6 million. Ponder that one and decide whether you can beat it!

Wealthy investors didn't get there by being stupid. They know the "magic" of compounding, and they know what 15% on T-bills means. And they know risk-reward like they know the back of their hand. And that's the trouble with owning stocks in this kind of environment.

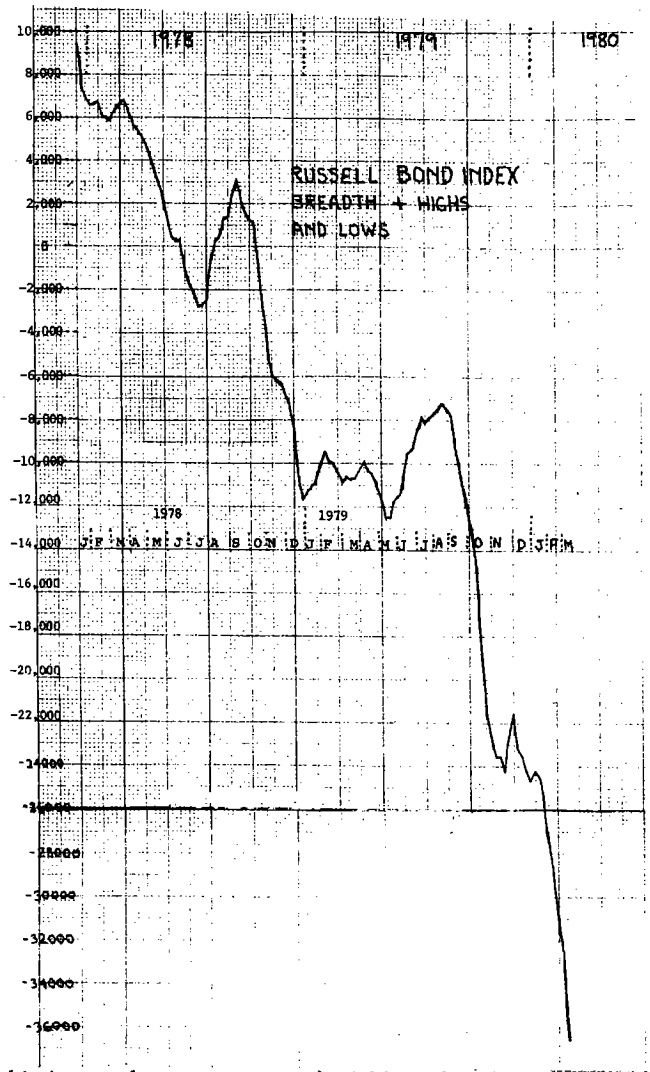
NYSE FINANCIAL INDEX



FINANCIALS: The NYSE Financial Index contains over 300 financially oriented stocks, banks, small-loans, savings and loans, etc. I've been watching this Index carefully as it neared its 6-year rising trendline. Last week, as the index smashed below 56, the long rising trendline was broken. This is not a good omen for the market. Following its long rising trend since 1974, I would think that the Financial Index could either come down very sharply, or enter into a shallower but extended downward trend.

BONDS, MONEY: The great American industrial machine was built on the ability of business to borrow money at long term. This means the ability of industry to sell bonds. Stocks, of course, are a major factor in financing, but bonds have raised the bulk of the money.

Ned Davis of J. C. Bradford estimates that during 1979 corporations, financial companies, foreigners, the US Government and its agencies borrowed about $79 billion in the bond market



(this is not short term money). Add to this about $161 billion in longer-term money in the mortgage market and you get a total of $240 billion in long-term money (bonds and mortgages) borrowed to finance 1979's business.

This compares, says Ned, with $4 billion raised via new stock issues in 1979. In other words, you can see where the money to finance US activity comes from–it comes from longer term bonds and from mortgages. What happens when the long-term money is squeezed? What happens when the bond market smashes? That's what we'll probably find out in 1980! At any rate, this gives you an excellent picture of why a healthy bond market is needed if business in the US is to hold together. For the FACT is that in 1979 for every dollar raised through stock issues, $50 was raised in the long-term money markets! Destroy those money markets, and you have to have unbelievable problems. Which is why I watch the bond market so closely, and why I write about them so often in these reports.

For years people have been telling me that this nation can grow at any given rate of inflation. If need be, they said, "we can index everything" to the inflation rate the way Brazil does. My answer was, "Brazil has no capital markets. If we adopt a policy of accelerating inflation, OUR CAPITAL MARKETS WILL COLLAPSE. If that happens, tens of billions of dollars will be lost and our ability to raise money (on both the business and government front) will be paralyzed. Therefore, as I see it, accelerating inflation in the US must ultimately give way to a bond market collapse and an inability to finance the needs of the nation."

So what happened? The US followed a course of accelerating inflation, interest rates (which are a function of inflation) started rocketing, and during 1978, 1979 and 1980 we witnessed a collapse of our bond markets. The smash in debt instruments during the last 6 months has, in many ways, been compared to the collapse of stocks during 1929-32.

For instance, take the bellwether Treasury bond, the 8's of 1996-2001. I happen to chart this bond on a daily basis, so I know it well. In January, 1977 the bond was over 108 ($1080). By January, 1978 it had dropped to 97. In January, 1979 the bond had declined to just over 90. In January, 1980 this bond had smashed to 70. And in February of this year the bond hit a record low of 63.28 bid. That shows an absolutely incredible loss of 40% since 1977. The loss in this single bond runs into the hundreds of millions of dollars.

Each day 750 to 850 bonds are traded on the NYSE. Each day I add the advances plus new highs and subtract the declines and new lows. I plot this differential on my weekly chart, and I call the chart the Russell Bond Index. The Index shows the ebb and flow of bond prices on a very broad scale. It's almost unbelievable but since last August I count only 3 weeks in which my Index was able to register a plus. This has to be one ot the greatest and most persistent breadth collapses on record. I've never seen anything like it.

MORE ON RUSSIA: I'll try to dramatize the picture in an effort to get it across. You're a pretty good prize fighter; you've had about 30 fights under your belt, but now you're getting a bit paunchy. Nevertheless, you've "been around" and there aren't too many guys in your class that worry you. Tonight you're walking down the street, and you run into a 270 pound bruiser. He's looking you over, and you don't like the way his eyes are fastening on that solid gold watch on your wrist. He takes a calculated step towards you, and then deliberately pulls out a 6" snap-knife. "Uh oh," you say to yourself, "This ain't going to be like any fight I've ever had before." The bruiser smiles, "Hey, friend, I like dat suit you're wearin'." You take a deep breadth, flex your shoulders, and keep walking towards the dark stranger.

That's about where I think the US is now. The Russians have been looking us over, studying us, for a long time. But they've been doing a lot more. For instance, in inflation-adjusted terms, the Russians have doubled their military spending since 1963, whereas US defense spending has declined. The Russians are outspending us now by $50 billion a year. According to latest intelligence reports, the Russians are turning out helicopters, combat aircraft and attack submarines at twice the US rate. They are out-producing us 3 to 1 in tanks.

How can the Russians do it? How can they finance it? They do it at the sacrifice of their civilian economy. Can we do what the Russians can't do? Can we greatly speed up our defense spending (which we are now doing) while at the same time keep our non-defense spending going at a prosperous pace? Maybe, but if we try we're going to do it via the inflation route with accompanying rocketing interest rates. Actually, I believe that the military build-up is going to be accomplished with substantial sacrifices. And those sacrifices are going to come at the civilian end of the economy.

In the last Letter I stated that the Russians have tabbed the Persian Gulf as their next target. Around the early to mid-1980's, Russia is going to cease being an oil exporter–and become an

oil importer. That's why they have plans—Russian plans, for Arab oil. You doubt this? You don't think they are serious? Then read these two articles (page 5) from last week's newspapers. Russia is, in effect, telling Europe to decide, to make up its mind which side of the bread its butter is on. It's telling Europe that the US is not entitled to decide who gets the Mideast Oil. Can the Russians be any clearer than that?

I have no crystal ball. I don't profess to be able to foresee the future. But it does seem clear to me that Russia is going to "go for it" as far as Mideast oil is concerned. Will they succeed? I don't know, but I do know that at this time the Russians have "the biggest artillery." Are the Russians known for missing an advantage? Not to my knowledge. I also know that the Russian build-up in Afghanistan is going on—even while they are talking of an ultimate pull-out. And the question I ask is, "Why does Russia need 100,000 combat-ready troops in Afghanistan? Why is the military build-up in Afghanistan still going on? It seems obvious to me that it is part of a greater plan.

Kuwait Offers to Sell Oil to Soviet Union, Which Seeks Support for Mideast Policy

A WALL STREET JOURNAL *News Roundup*

Kuwait apparently is willing to sell oil to the Soviet Union, which is moving toward a bolder stance on Mideast petroleum.

Sheik Ali Khalifa al-Sabah, the Kuwaiti oil minister, said yesterday that Kuwait is prepared to sell oil to both the Soviet Union and the Eastern European countries.

The Soviet Union stepped up its effort, meanwhile, to woo Western European governments away from their support of Washington's Mideast oil policies. And a Czechoslovak newspaper warned that Soviet allies viet intentions regarding Mideast oil.

An Associated Press dispatch from Moscow said the Soviets are beginning to make their intentions clearer. A commentary by Tass, the Soviet news agency, suggested Mideast oil supplies would be safer for Western European governments if they cooperated with the Soviets instead of following the "adventurist and hegemonistic" policies of the U.S.

Describing the Soviet Union as a "potential buyer of Middle Eastern oil," Tass

Soviets Dangle Oil Supplies In Attempt To Woo Europeans

MOSCOW (AP) — The Soviet Union told West European governments yesterday that their Mideastern oil supply would be safer if they joined with the Soviet Union and shunned the "adventurist and hegemonistic" policies of the United States.

The commentary carried by the news agency Tass was the clearest Soviet attempt since the start of the Afghan crisis to woo Western Europe away from Washington.

Tass commentator Nikolai Portugalov urged the Europeans to join the Soviets in an "all-European conference on energy" to seek equal access to the Persian Gulf oil and the "guaranteed security of oil supply routes."

"When American oil monopolies begin to determine the global policy of the U.S.A. in issues of war and peace and, in their search for maximum and quick profit, contribute to creating an explosive situation in the Persian Gulf area, it is time for Western Europe to sound the alarm," he wrote.

The Russians import no oil now, but the article called the Soviet Union a potential buyer of Middle East oil. American intelligence studies have said Soviet oil production will likely start to decline in the 1980s, possibly bringing the country into the ranks of oil importers.

The proposal carried in Tass followed a statement by President Leonid I. Brezhnev in a speech last Friday criticizing an American declaration that it will guarantee the safety of its Middle East oil supply routes.

The Tass commentary said Brezhnev's speech could become a "point of departure for all-European initiatives that would offer a favorable alternative to the dangerous development of events in the region provoked by Washington."

The article noted that European nations so far have agreed with American warnings against Soviet intentions in the region. But Portugalov said the Soviet interests are similar to those of Western Europe.

Next question: what happens if Russia does move on the Mideast? What happens if Russia effectively takes over the Mideast? Answer: I don't know, but I would expect panics in the financial markets. In the event of a Russian takeover, Russia would decide what country gets how much oil and for how long. Worse, Russia would then literally control the economies of the Free World.

Question: If Russia moved into the Mideast, wouldn't the US immediately take this as an act of war against the West? Answer: certainly it would constitute an act of economic war. But would we fight? And if we did fight, could we win? On conventional military terms, I don't think we could win. On nuclear terms (assuming we would be willing to enter a nuclear war) the question is, could any nation win?

In the final analysis, turn back to the first paragraph of this section. You are the prize fighter. The stranger with the knife stops you and asks for your watch—and your suit. Do you give it to him? Do you?

INVESTING AND THE MARTIAL ARTS: I have long held that the great successes in the stock market (or any other market) have been accomplished by individuals who were intelligent enough or sensitive enough to stay in HARMONY with the main or primary trend of their securities.

Recently I read some work by Yukiso Yamamoto, a 75-year old Japanese martial arts master, a teacher of Judo and later of the very sophisticated art of Aikido. Yamamoto had spent 30 years as one of Japan's top Judo masters, but when he was thrown by Tohei (one of Japan's leading Aikido experts and a considerably younger man than Yamamoto), then Yamamoto took the remarkable step of becoming one of Tohei's students. That is humility!

Within a matter of years, Yamamoto mastered Aikido. This art depends very heavily on understanding and harnessing "ki" which is the martial arts word for the life force. It is the release of ki which allows karate fighters to smash bricks, it is ki that provides the force behind the armor crushing force of the kendo swordsman. It is this same ki which may give a 120-pound mother the "super human" strength to lift an auto off her child's crushed leg (there are many records of such feats).

Here is a bit of Yamamoto's description of Aikido: "When we are attacked this represents conflict. In Aikido we practice avoiding the conflict. We never go against the opponent's strengh. Rather, we lead the strength away from us. This principle of avoiding conflict can be applied to anything, not only self defense. However, when you understand how we use this principle in self-defense, it becomes easier to apply in your daily living.

"When someone tries to hurt an individual, he is going against the natural law of harmony in the universe. If the person being attacked fights back with physical strength, then this person also goes against the natural law of harmony in the universe. If someone attacks you, possibly you might overcome this attack by using your physical strength. But this would only be a short-term victory. Perhaps you would win this time, but there is always some other person who is stronger than you.In Aikido we practice 'winning without fighting.' This is absolute. Avoid the conflict and you always win. If someone tries to punch you, simply move out of the way. This is the simplest example. We look at everything in a positive way in Aikido. When someone

attacks you, he gives you a present of his strength. To make use of this gift, you must know how to receive it.

"When someone hits you, he is extending his ki towards you. His ki starts to flow even before his body moves. It starts when he thinks he will hit you. And before he can hit you, he must think he is going to hit you. His action is directed by his mind and the flow of his ki. This is the secret: lead his mind and ki away from you and his body will naturally follow. As his ki approaches, you direct your ki to flow in the same direction as his ki intends to go. Now both your ki and his ki are one. Flowing in the same direction. Difference is that you are centered and he is not. Since he extended his ki with the intent to hit you and you let him keep extending his ki, he is over-extended. Now you can lead his ki and direct it.

"I do not practice Aikido for self-defense reasons. I don't think any serious students practice this art for self-defense. The movements are simply a way to visually demonstrate the Aikido principles. These principles of nondissension and avoiding conflicts can be applied to everyday life. If you have love in your heart for all creation, the universe itself is your protector. There is no self-defense for those with ill intention."

Does Aikido work? Morihei Uyeshiba, the founder of Aikido, practiced the art into his 80's. No man ever succeeded in knocking this venerable master off his feet. Thousands tried.

And what has all this to do with the markets? If you haven't already guessed–everything. The market (having been created by living men) takes on a life of its own; it too is a living thing. It breathes, it inhales, it exhales, it strikes out, it lunges, it parries, it feints (boy, does it feint!), but most important of all, it possesses a life FORCE, and we call that force the primary trend.

Now the strange thing about the market is that it acts like a crafty fighter. It hates to show us its cards, and its ace card or true strength is its **underlying primary direction**. Why is the market so deceptive? It's because the market knows that there are always a few big winners and a great many smaller losers. If the market revealed its life force (its ki) to us, then everyone would invest in harmony with that force and there would only be big winners. And then there would be no market! The market (cunning devil that it is) wants to live, it wants to survive (just as you and I do). And to survive, the market knows that there must be WINNERS and a great many LOSERS. So the market endlessly, eternally, practices and perfects its amazing art of deception.

Our job as investors, as survivors, is to try to identify the ki, the flow, then (just as the Aikido masters do) go with that flow. Imagine that you had Mr. Yamamoto's Aikido skills but instead of applying them to throwing your opponent you could apply that skill and genius to staying at all times in harmony with the primary trend of the market. In a matter of a few years, you'd have the profits "coming out of your ears." You'd run out of bank vaults.

So each market practitioner attempts to hone his own weapons, to sharpen his own skills. And some of us, each in our own way, succeed or at least partially succeed. Now there are a few advantages in this investment business. One is that the markets are **always there**. If you fail this year, then 1981 is there. If you mess up 1981, then have a happy 1982. The second advantage is that your **age and experience** are advantages in this business. It is said that the best investor is the one who has made the most mistakes (this assumes, of course, that he learns from his mistakes). So the investor at 80 really should be much better than he was at 25 or 40. And really, I find myself always more interested in listening to the 70 year olds in this business than to the 30 year olds. Why? Because they're the ones with experience.

NOTES & QUOTES: One of the interesting facets of this business is that I can tell where the investment money is and where it is accumulating. How? Simple, subscriptions here (and I have a 22 year record) have always come in proportion to where the serious investors are. When I started Dow Theory Letters in 1958 the great bulk of subs came from NYC and Florida with a good batch from Texas and Chicago. Foreign subs were inconsequential with the exception of Canada (Canadians have always made up a surprisingly large portion of my subscribers).

During the 1960's California and the West came on like gang busters, and now I would say that the West and the East are about equal on the subscription list. But the most remarkable pick-up has come from *Asia*, and more specifically from Singapore and Hong Kong. The other large increase has come from S. Africa.

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I don't often recommend books here. But a new book has just been published (Harper & Row) which all of my subscribers SHOULD read. It is "The Money Masters" by John Train. (281 pages, $11.95). The book describes 9 very successful money managers and how each does his job. Chapters on Buffett, Cabot, Graham, Tisch, Wilson, Price, Graham, etc. The opening chapter on Warren Buffet is alone worth the price of this book. If you want to know how geniuses make (and occasionally lose) money in the stock market, this is the book that tells you how, why and where.

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Speaking of reading, don't miss the outstanding article (p. 35) in the March 17 issue of Forbes. Malcolm Forbes has badmouthed gold ever since he first heard that the metal was selling for more than $35 an ounce. After reading the article, I wrote Forbes a Letter-to-the-Editor and congratulated them on their sub rosa flip-flop on gold. I never thought I'd read it in Forbes, but the last paragraph of this article runs...."It now seems obvious that the remaining gold stocks should be considered a war chest, and not frittered away in futile attempts to break the market."

* *

The prime mortgage rate hit a record 15.5% in California last week. Let's say you want to buy an average-price San Diego house which runs (would you believe) around $100,000. You put $20,000 down and go out looking for an $80,000 mortgage. My tables show that at 15.5%, an $80,000 mortgage (25-year maturity) costs $1055 per month. Then you have taxes ($100 per month), you have insurance ($50 per month) plus upkeep and repairs ($50 to $100 per month) plus utilities (maybe $80 per month). So you're talking about around $1350 a month. And that's why housing is sliding in California (S&L's loans are down 30% this year). With builders being subject to loan costs of 15% to 20%, the monster housing industry in the West (and the East) is headed for a major contraction. I can't imagine what will happen here in San Diego, where every other person you meet is either a builder, real estate broker or a contractor.

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The "overrun" on the US defense budget is scheduled to be about $25 billion dollars this year. This overrun is basically due

to inflation and stretchouts. The $25 billion is not part of new military spending, it's not additions to the military equipment, it's EXTRA costs for *this year's* military spending!

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In my opinion, the outstanding characteristic of Russia at this time is its ruthlessness and power-madness. The outstanding characteristic of the US at this time is greed. The ruthlessness of the Russians can be seen now as they sweep over Afghanistan using the latest weapons and even (incredibly) nerve gas.

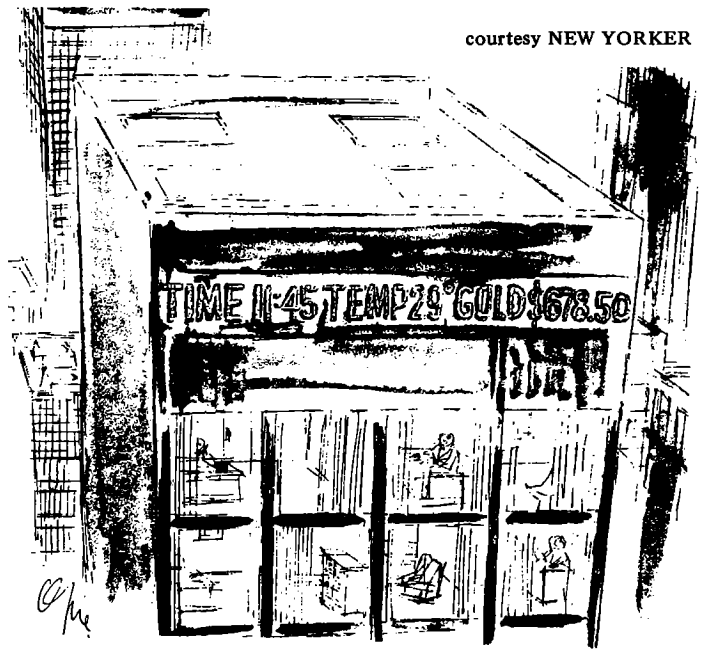
On the other hand, the stupidity, gullibleness and pure **greed** of the Americans is mind-boggling. The US has supplied millions of dollars worth of technical information and equipment to the Russians (all for soft dollars and dollar loans). This has saved the Russians years of research on their own and allowed them to move ahead in other areas with the aid of US technology. The one area where the Russians are behind is in computer technology. But we'll remedy that. Here is a list (US Dept. of Commerce figures) showing computer hardware shipments to Russian and satellite nations for the 6-month period ending April 1, 1978.

Bulgaria:	**$ 1,188,421**	**(1%)**
Czecho-Slovakia:	**$20,507,207**	**(22%)**
East Germany:	**$ 2,195,770**	**(2%)**
Hungary:	**$ 7,718,453**	**(8%)**
Latvia:	**$ 249,720**	**(.2%)**
Poland:	**$10,805,896**	**(12%)**
Romania:	**$ 6,158,730**	**(7%)**
U.S.S.R.:	**$42,922,584**	**(47%)**
Total:	**$91,746,781**	

LATE NOTES: The market is now more over-sold than at any time since 1976. All during 1978 and 1979 I talked about a major, cyclical 4-year bottom that "should have arrived" around 4 to 4½ years after the 1974 low. **It never came.** Unabated inflation and money creation in the US held off the expected bottom. But now the market is not too far from such a major low (of the 1966, 1970 and 1974 variety). In the next Letter I will show just where the market is in relation to the vitally important cyclical lows zone. I now believe there is a better than even chance that my long-term indicator will move into the MAJOR over-sold area during the second quarter of 1980. This is the area where the great buying takes place, the safest buying, the most profitable buying. Each time over the last three years that the market looked as if it would crumble into the cyclical bottom zone, it rallied. But I'm beginning to think that 1980 is going to see Wall Street in the "great buying zone" once again.

In order to go into that zone, **panic conditions** must prevail for at least 2 or 3 weeks. There must be a psychology of "sell my stock for whatever you can get for it." That's what it takes to drive an over-sold market (such as this one) into a major, historic bottom. You cannot put a figure or level on such a zone. In other words, you can't say that we will be there when the Dow hits 750 or 650. It's a matter of psychology, a matter of stocks discounting the very worst. So far, there's still too much optimism around for an historic bottom in stocks. But watch the psychology and the quality of the rallies. Weak rallies in a bear market pave the way for big declines. When the turn comes, we should see at least 3 days in which 1000 or more issues advance on each day.

courtesy NEW YORKER

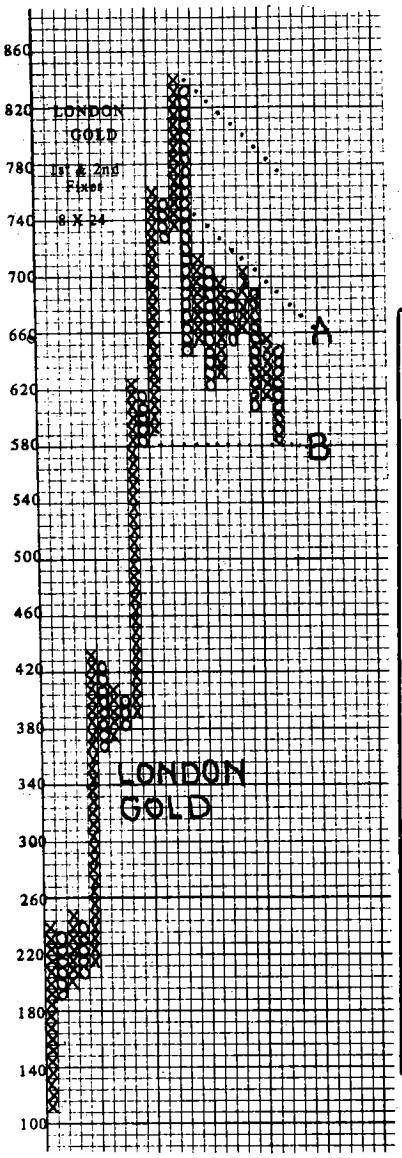


GOLD: Gold on March 7 closed below 600 (basis March spot contract, NY) for the first time since early January. This isn't the time to be "cute" about gold, and it isn't the time to say, "I told you so." From here on I suggest (as I have all along) that we retain a cold, impartial view of gold. As stated in recent Letters, I think gold is now in a post-second phase correction. If that is right and if this second phase correction runs true to form, this should be the move that shakes out the late-comers (if it hasn't already); it should be the move that transfers gold back into rock-strong hands. How far will gold have to slide before that can be accomplished? I don't know and neither does anyone else. What I want to see now is whether gold holds above my support level "B" on the accompanying point & figure chart. If gold can hold, that would be a big technical plus for the yellow metal. If support level B breaks, then there isn't much under gold until 400-420.

The point & figure chart that I show here is an 8 x 24 chart. This means that each box equals 8 points and only rallies or declines of a full 24 points or more are shown. Declining trendline "A" offers resistance to any rally at about the 668 level. Since the 850 high of January, each rally in gold has formed a lower peak than the last. Finally, the sellers have driven gold back under 600 (something that many people believed could never happen). Now gold is just above a major critical line of support (horizontal line B). We'll see shortly whether 580 is fated to hold.

I'm also including my three exponential moving averages of gold. The 5-week MA (having turned down) closed last week at 633. The 13-week MA closed at 610. The 50-week MA is still creeping higher and closed at 442 (which should be an area of major support). The line at the bottom shows the differential between the 5 and the 13-week MA. The differential last week dropped to 22 points. If and when the differential goes below zero, I would expect gold to be sinking rapidly in a test of the 500 area.

Once this correction is over, gold should be a good place to be again. For I believe that following the correction gold will then enter its third and final phase. This will be the phase where gold



LATE, LATE NOTE: I'm getting a sneaking suspicion that the crash in the bond market is very near over. I've never seen a market crash that didn't "say something." I am beginning to think that the bond market crash (together with gold) is spelling the END of inflation. If so, 1980 is going to be a shocker. The one thing that nobody is ready for is an end to inflation. Be guided accordingly.

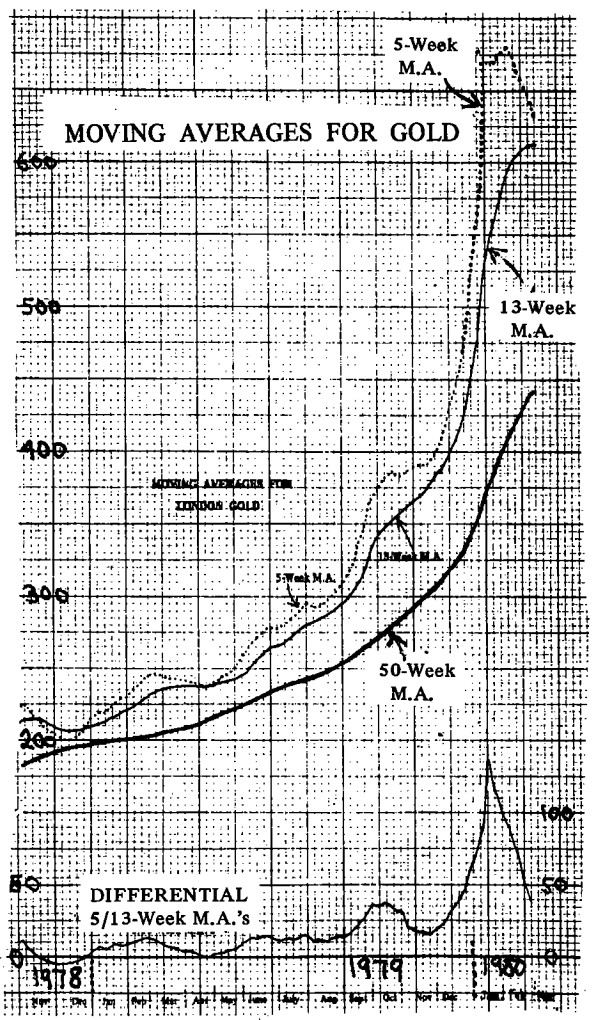
will either go "through the roof" or be put back (officially) into the monetary system again. If gold goes through the roof it will be a result of a breakdown of the US monetary system or perhaps even the entire monetary system of the West. If gold is placed in the monetary system correctly, it will have to be pegged at a price *high enough* so that nobody will want to trade in their legal tender money for gold. The monetary system will also have to be under the discipline of gold.

If the US and the world continue to avoid the discipline of gold, then the monetary system as we know it is doomed. It will not be a question then of whether the system will collapse, it will be a matter of the timing of that collapse. The present fiat paper system has lasted longer than many thought it would. But the vital ingredient, confidence, is now waning. The public, which has been hoodwinked since 1945, is finally opening its eyes. And fear is taking the place of the confidence of the 1950's, the '60's and the early '70's.

The US, since the 1940's, has squandered hundreds of billions of dollars while giving away further billions in the form of never-to-be-paid-back "loans" and outright gifts. Yet, when it comes to oil, the US gets no loan-lease and no gifts. We pay for it with dollars. All this has obviously totally undermined the dollar, which has played its part as the reserve currency for the world since the demise of the British pound. Now even the Arabs are balking at their dollar income, and they are threatening to raise prices on a quarterly basis while planning cutbacks in the actual amount of oil shipped.

But here as elsewhere, the markets themselves are proving to be the final arbiters and movers. The price of spot oil is now selling *under* the contract Rotterdam price, and a great oil glut is building. Gold, perhaps sensing the all-around weakness in price structures (from grains to meats, from metals to woods) is backing off. And the world waits to see whether the best-advertised disaster in recent history, "hyper-inflation," is fated to arrive. Or (as some few voices dare to suggest) does a deflationary bust lie just over the horizon?

We "gold bugs" have done our best to warn the nation. But what good is it if a handful of investors makes a bundle in gold if the system and the nation comes apart at the seams. As I see it, the problems of the 1980's are going to be far different–and far tougher–than those of the 1970's. Everything has changed–but the politicians. And we better change them too–and fast!



NEXT MAILING: March 26th